

STAFF REPORT

Agenda Item: B1

Date: 04-14-2010

To: Chairman and Agency Board Members

Thru: Donna Dreska, Executive Director

Subject:

Staff Report: Update, discussion and potential direction to staff regarding the future development of the West Street Market, including the possibility of allowing a Cabaret/Night Club use.

From: Gillian Pollard, Redevelopment Project Manager

Summary: In May 2007, the Redevelopment Agency Board approved a Memorandum of Understanding between the Redevelopment Agency and the Nevada Certified Farmers Market Association to explore the feasibility of developing a public farmers' market. This signaled the first step towards the development of the West Street Market. The project was intended to bring about positive influences such as a community gathering space and access to art and culture, fresh produce, fruits, flowers, and prepared foods in the downtown area. Selecting the site on West Street served to eradicate the blighting conditions of the former Liquid Lounge, Green Room and the "G" Spot Store. The market was built on the assumption that it would have 12 permanent tenant spaces, 6 permanent kiosks and 21 seasonal outdoor spaces. It was also intended that the market would have events including craft fairs, poetry, music and food preparation demonstrations in the courtyard and the indoor common areas. It was estimated that the market would generate \$18,256 in City Sales Taxes annually and create 140 jobs. Today, the market is occupied by 9 permanent stores and 1 kiosk (see Attachment A). Many of the events end at 1:00 a.m. and the market has become more of a night-time attraction than a day-time market place. Not counting the owner-operators, the market has created 5.31 full time equivalent jobs. Staff recommends that the Redevelopment Agency Board direct staff to develop an action plan for implementing one of the following options: 1) Maintain the original vision for the market; 2) Change the vision to reflect tenant desires; 3) develop a small not for profit incubator; 4) sub-lease the property to a single entity; or 5) close the market. As a timely decision on these options is very important to at least one tenant, staff will verbally report on the recommendation from the Redevelopment Agency Advisory Board meeting on April 6, 2010. For the same reason, staff has not taken this item to the Downtown Police District Committee or the Ward 1 NAB for input.

Previous Council/Redevelopment Agency Board Action:

May 23, 2007 – Approval of a Memorandum of Understanding ("MOU") between the Redevelopment Agency and the Nevada Certified Farmers Market Association ("NCFMA") to explore the feasibility of cooperating to develop a public farmers' market.

January 30, 2008 – Approval of the proposed Urban Farmers' Market; a Lease Agreement between BF Management and the Redevelopment Agency; and authorization for the expenditure of funds in the amount of \$515,000 to further develop the property.

March 5, 2008 – The Redevelopment Agency Board approved the hiring of contractual staff for the Urban Market; the award of a demolition contract to Advance Installations not to exceed \$55,000; an Architecture and Engineering Services contract with Cathexes not to exceed \$60,000; and a construction contract relating to common area improvements not to exceed \$310,000.

March 26, 2008 – Authorization for the Executive Director to procure and award an Exclusive Agency Authorization to Lease Agreement for the Urban Market.

June 25, 2008 – Authorization for staff to award a contract for construction of Phase I improvements in the amount of \$384,730.85 and to bid and award or negotiate a change order to proceed with the Construction of Phase II of the Urban Market in an amount not to exceed \$300,000.

July 2, 2008 – Approval for the appropriation of an additional \$300,000 from the Agency's administrative budget to the project; a revised total budget for the project in the amount of \$815,000; authorization for the Executive director, or designee, to award a bid for construction of Phase I improvements in the amount of \$384,730.85; adoption of Resolution No. 182 authorizing the Executive Director, or designee, to make all approvals, sign all documents, reallocate appropriated funds, execute change orders, record any instruments, and take actions necessary or appropriate to carry out and implement the project.

November 10, 2008 – Approval for the use of additional Community Development Block Grant (CDBG) funding in an amount not to exceed \$197,000 to complete Phase III improvements to the West Street Market; approval of an award of a contract to Advance Installations, Inc. for common area improvements to Building 138 of the West Street Market in the amount of \$61,441.

February 25, 2009 – Award Add Alternate B to Dennis Banks Construction in the amount of \$57,850 from CDBG funds to fabricate and install the steel entryway structure with an additional \$6,000 authorized for lit sign letters.

March 11, 2009 – Approval of the Stimulus Fund projects recommended by staff which included the purchase and installation of photovoltaic arrays on the Parking Gallery, Events Center, Evelyn Mount Northeast Community Center and, potentially, the West Street Market.

June 24, 2009 – Authorization to staff to take all necessary and appropriate steps to procure and award an Exclusive authorization to Lease Agreement for the West Street Market

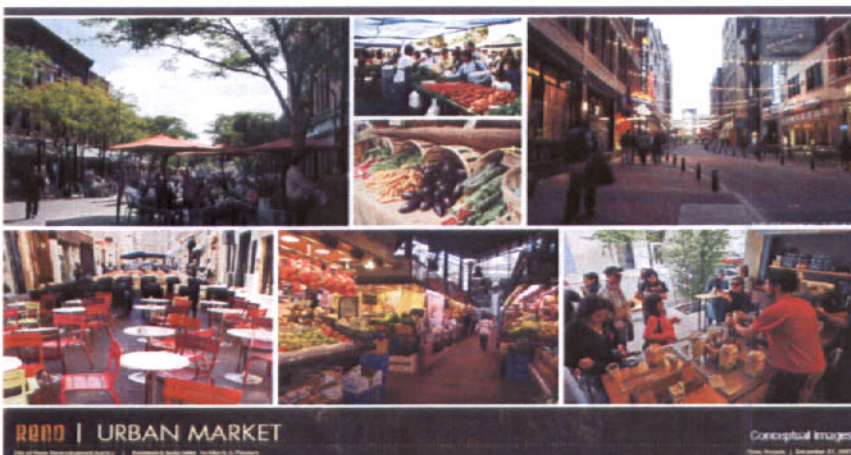
Background:

In May 2007, the Redevelopment Agency Board approved a Memorandum of Understanding ("MOU") between the Redevelopment Agency and the Nevada Certified Farmers Market Association ("NCFMA") to explore the feasibility of cooperating to develop a public farmers' market. A summer Farmers' Market was held on the Plaza at Virginia Street and First Street. This event occurred for twelve (12) weeks and attracted 6,000 visitors.

In January 2008 the Redevelopment Agency Board approved \$515,000 in Community Development Block Grant (CDBG) funds to establish an indoor/outdoor urban farmers' market on West Street between First and Second Streets; the Agency cited job creation as the eligible activity to qualify for this use of CDBG funds. The property included three brick buildings (8,494 sq. ft.) and a court yard (6,234 sq. ft.). The addresses of the buildings were: 148 West Street (formerly known as the Liquid Lounge), 140 West Street (formerly known as the Green Room) and 134 West Street (formerly known as the "G" Spot Store). The property was considered blighted and a nuisance (see existing conditions photos below).



It was intended that the urban market would convert the three brick buildings into a diversity of venues for food, wine, art, education and entertainment. Some indoor venues would have the capability to open up into the courtyard to allow for outside dining. The project would transform the location into a community gathering space (see conceptual images below).



It was intended that the use of the property would go from night clubs and boarded up buildings to a more community oriented use.

In addition to accommodating several outdoor dining areas, there would be sites for booths to display fresh food, arts and crafts (see conceptual renderings below). The plan for the market also included the northbound side of West Street, closing it off three days a week during the spring and summer. It was anticipated that within two to three years the alley behind the market and the Parking Gallery would be transformed into a European-style pedestrian muse for pop-up tents and seating. Staff proposed acquiring and relocating the Ginsburg clock to the median on West Street and within the Courtyard and pedestrian alley behind the Parking Gallery staff proposed restoring and displaying several examples of Reno's best neon signage from an earlier



period in the City's history.

The proposed market had five distinct components:

1. Indoor Market - three buildings with prepared food, fresh food, packaged goods and community room
2. Outdoor Market - courtyard, street, alley for pop-up tents for farmers, artists, eco and theme markets
3. Market District - entire block between West and Sierra and 1st and 2nd Streets including parking, restaurants, churches, bars, hotels, residences, movies, river
4. Attraction - neon, arts and culture
5. Community Interaction - green experience, programs, media

The planned tenant and product mix was produce, cheese, multi-cultural foods, deli, bakery, meat and fish, flowers, fruits, wine, artisans, music and performance, green elements, Eco Net and Radio, food demonstration, community basket. Staff secured donation from UNR Cooperative Extension to design, plant and maintain the West Street Median landscape.

The key descriptive elements of the proposed site include the following:

1. Three brick buildings (totaling 8,494 sq. ft.)
2. Court yard (6,234 sq. ft.)
3. The initial lease term begins March 1, 2008 and ends April 30, 2018 with two (2) five (5) year options of renewal.

It was estimated that the urban farmer's market would provide the community with the following impact:

Sales Tax:

- Reno	\$18,256 annually
- Sparks	\$10,343 annually

- County \$83,475 annually

Property taxes: \$5,000 annually

Business License: \$3,200 annually

Jobs: 140

In June 2008, staff distributed a list of Vendor Leases to the Agency Board as follows.

- | | |
|-------------------------|---|
| 1. Great Basin Basket | Community Supported Agriculture |
| 2. Nevada Eco Net | Environmental non-profit in Reno since 1980's |
| 3. Downtown Marketplace | Deli & Neighborhood grocery |
| 4. Brickhouse Bakery | Breads & best of Reno baked goods from local bakeries |
| 5. La Merenda | Italian prepared and fresh pasta sales |
| 6. Se7en Tea House | Bulk teas and Asian foods |
| 7. Wine Bar | Wine tasting and sales |
| 8. Mikonos | Greek |
| 9. Silver Trends | Mexican silver jewelry |
| 10. Jada's Jewels | Verdi artist |
| 11. Nutty Boy | Local sausages, hot dogs, roasting nuts, dried fruits |

The market opened in November 2008 with 7 of 11 proposed tenants.

The Agency hired contractually based management, security, and janitorial services to address the daily operational needs of the market.

Discussion:

To date, the market has only partially achieved the original vision. There have been many significant setbacks, some of them beyond the control of the Agency or the tenants. Due to the economic situation, many of the residential developments planned for downtown and used to estimate demand for the market did not materialize.

Some of the issues so far include:

1. The vision versus today's reality – the project has not yet delivered on the vision presented.



2. The Redevelopment Agency's inability to complete improvements to the Market - In November 2008 the Redevelopment Agency Board approved the use of additional CDBG funding in an amount not to exceed \$197,000 to complete Phase III improvements to the West Street Market. The improvements included common area floor finishing (\$20,000) and roof repair (\$25,500). Bids for the floor repair were received but not awarded. So

far, the market has not created sufficient jobs and may not be able to use additional CDBG funds until there is a potential for the jobs to be created.

3. Job Creation - The use of CDBG funding was predicated upon the project being able to create jobs. So far the project has created 5.31 jobs. Given the amount of CDBG money used to date, the project needs to generate approximately 15 jobs. The lack of activity in the market has hampered the ability of the tenants to hire workers. Per HUD's regulations with respect to the use of its funds to implement the national objective of job creation, owner-operators can not be counted towards the job creation numbers.
4. The Budget Subsidy - According to the financial pro forma for the market, the market would have a net operating income from fiscal year 2008/2009 onwards. For fiscal year 2009/2010 the Cumulative Net Income was estimated at \$31,041. Instead there was a subsidy to the market of \$185,000.
5. Difficulty in realizing sales - Many tenants have problems attracting and keeping customers. On any given day, during the regular opening hours, (11am-10pm) there are fewer than 50 visitors to the market. Some tenants make no more than \$25.00 per day, while tending their stall from 11:00 am to 10:00 pm (see pictures below taken during a recent lunch hour at the market).



6. Hardship in paying rent - While most tenants eventually pay the rent, most are late or do not pay the full amount of the lease.
7. Events - Many of the events are concentrated later in the day effectively shifting the market into a night-time market. The market has on average 50 visitors from 11:00 a.m. to approximately 6:00 p.m. Large numbers of visitors, usually over 100, go to the market in the evenings to enjoy the bands that perform there. On Thursdays, Fridays and Saturdays many performances last until about 1:00 a.m. (see images below depicting the changing nature of events from 2008 to the present).



8. Altered use of the space - the lack of customers has induced some tenants to alter their product mix and tenant space in order to find their niche. Areas designated as tenant space are now being used as audience space for performances. Se7en Tea House and Bar has been able to attract and keep visitors by changing their focus from a tea house and food service to a full bar with frequent band performances. Se7en has requested approval to apply for a cabaret license.
9. The layout and set up of the market - the market was laid out with tenants sharing many common areas and air space. Because of this layout, one tenant's activities could easily impede the ability of other tenants to conduct business in a manner that is beneficial to them. Likewise, one tenant's activities may have spill over benefits to the other tenants.
10. Structural inadequacy of the building - because the market was envisioned as an open venue for fresh produce, arts and crafts and a community gathering place, the building was not renovated to accommodate separated space for events. The installation of the stage, sound system, and ATM machine (approximately \$27,000) were placed for the benefit of the community and all tenants of the market. Also, if closed off some parts of the market do not meet safety requirements. For instance, there are no panic bars on some of the doors. Also, closing off any area of the market and charging an admission fee means that there is no longer full access to the market and all restrooms, and the tenants are not benefitting equally from the RDA owned equipment and the common areas.
11. The changing use of the market - The market is now being used in a way that it was not originally intended. It is the responsibility of the Redevelopment Agency to examine this new use and bring the market and its tenants into compliance with City Code requirements. The rear area of the market is marked for 5 tenants, a stage and restrooms. Initially, there were three tenants in the rear space. Two of the tenants have since left the market. Using the entire space for cabaret performances limits the potential of the space to create jobs.
12. Master Lease - On January 30, 2008, the Redevelopment Agency Board authorized a Lease Agreement between BF Management and the Redevelopment Agency. This lease is for an initial 10 year term, with two five year options to renew. The lease commenced on March 1, 2008. The initial period will expire on April 30, 2018. The Master Lease between BF Management and the Redevelopment Agency states that the tenant will

operate either as an urban/farmers' market or another food and entertainment venue. Any other use will first require approval of BF Management.

13. **Reduction in Staff:** - In January of 2010, the Redevelopment Agency reduced staff and eliminated the "Market Manager" position. Due to the limited number of staff retained by the Agency, future management of the Market is suggested to be outsourced to a third party management company. Staff has requested and received bids for property management services to include full service oversight of the Market including financial reporting. Due to the proximity of the Parking Gallery, the Agency was able to achieve an "economy of scale" with the low bid being Colliers International for a monthly fee of \$800.00. Staff believes working with Colliers International may reduce expenses as seen at the Parking Gallery. Over the last 12 month period, staff has been able to reduce expenses 15% at the Parking Gallery by working with Colliers and contracted vendors. Cost savings would more than exceed the \$800.00 monthly expense of the property management fees.

The concept of an urban market is not new. It is widely used to stimulate economic development and has been successful in such places as Seattle, Philadelphia and San Francisco. The success of the market depends on the right product and vendor mix, location and activities and events that bring all sectors of the community into the space.

Today, we have a market that is still a far way from the vision that was approved in 2008. Instead of a location where the community gathers from 11 am to 10 pm, we have recreated an environment where the community gathers from 5pm to after midnight.

The challenge is to consider the market as it exists today and the options for moving forward. Any future plan for the market must address two very important issues: 1) job creation: the CDBG funding was based on job creation, and approximately 10 new jobs need to be created in the short to medium term. 2) Self sufficiency. To date, the fiscal year 09/10 subsidy to the market is \$178,917. Staff is requesting Agency Board direction in selecting one or more of the following alternatives:

1. **Maintain the Original Vision for the Market:** Continue towards the achievement of the vision of an Urban Farmer's Market. This option will require additional funds to implement the original vision, including construction expenses listed above for finishing the floor and roof.
2. **Change the Vision to Reflect Tenant Desires:** This will necessitate additional renovations of the building, renegotiation of leases with all the tenants, and review of tenant compliance by all city departments. As part of this process, Se7en Tea House and Bar is seeking permission from the Redevelopment Agency to apply for a Cabaret License. If granted, this license will allow the tenant the right to operate a full bar with bands and other live entertainment at the West Street Market. The activities at the market may require the Redevelopment Agency or the Tenants to secure licenses or permits which will accommodate the frequent use of the space for the sale of alcohol and band performances within the same space. One or more of the following may be necessary to made the activities come into compliance with City Codes:

- a. **Community Development Planning Division:** The Redevelopment Agency could seek the permission of the property owner to apply for a Special Use Permit ("SUP") which would allow the property to function as a night club. If permission is granted by the property owner, the Redevelopment Agency would then proceed with the SUP application. This process will permanently allow the property to continue as a nightclub and will transfer with the property after the Redevelopment Agency's lease expires. The cost of the SUP application will be approximately \$4,500 with additional cost to prepare the application. This would be an expense of the Redevelopment Agency.
 - b. **Community Development Building Division/Fire Department:** Current maximum occupancy for the building is 103 in the front common area and 49 in the rear common area. In order for the property to increase occupancy, push bar safety devices will need to be installed on the doors and exit signs be placed above the doors. The cost of these renovations will need to be transferred to the Tenant.
 - c. **Finance Business Licensing:** Tenants wishing to have alcohol sales and music performances in the same space will need to apply for a cabaret license. The cost for this expense will be paid directly from the tenant.
 - d. **City Attorney/Redevelopment Agency:** Current tenants have access to common areas identified in the tenant subleases. Altering the Market vision to allow tenants to act as a nightclub will require amendments to all tenant leases currently located at the Market. In order to allow Se7en Teahouse the ability to apply for a Cabaret License, the Redevelopment Agency would need to remove the back room common area from existing tenants leases and consolidate the entire room into a single use leased by Se7en Teahouse.
3. **Develop Not for Profit Incubator Space:** The Market venue could be used as a location for not for profits in addition to current tenants. Staff has had discussions with local real estate brokers that advised using the space as a potential Not for Profit Incubator that could benefit the downtown area. Development of this vision would require the Redevelopment Agency to market existing non leased spaces as incubator space for local not for profit use. The Market would continue to operate at a loss under this option.
4. **Sub-lease the Property to a Single Entity:** This option would alleviate the financial burden of an annual subsidy from the Redevelopment Agency to the Market. The Redevelopment Board would need to abandon the idea of an Agency supported urban market, possibly repay the HUD CDBG Loan in the amount of \$350,000 and sub-lease the space to a single owner. Under this option, if the sublease to a single entity creates the required jobs, the Agency may not have to repay the HUD CDBG Loan. This would also require the relocation or lease termination of several or all tenants. This option will require staff to return with a full analysis of financial and legal implications including possible single uses or tenant for the site.
5. **Close the Market:** Currently the Market is operating at an \$185,000 annual loss (Estimated through FY 09/10). This subsidy from the Agency could be used for other projects within RDA #1 or #2. If the Agency were to abandon the idea of the Market, staff would need to

negotiate with the landlord on termination of the Master Lease, default on the Master Lease, or proceed with the continuation of the lease, an approximate \$12,500 monthly rent based on CPI, expense through the remaining term (8 years). Additionally, the HUD CDBG loan would have to be repaid in an amount of \$350,000. To continue the \$185,000 annual subsidy from the Agency for the remaining term requires an Agency total cost of \$1,480,000 over the next eight years. This option would require the addition of ten new jobs. If staff were able to negotiate the Master Lease termination with the landlord, the total expense would be the HUD CDBG loan repayment of \$350,000. Closing of the market and paying off the remaining balance of the Master Lease is approximately \$12,500 per year or \$1,000,000 over the balance of the term.

Financial Implications: To be determined.

Legal Implications: Also, certain alternatives may have legal implications, and may not be achieved unilaterally by the Agency. For example, if an alternative requires a modification of a lease, and the tenant (or landlord) refuses to agree to the modification, then the alternative may not be achievable.

Recommendation:

Staff recommends that the Board select one or more of the following alternatives and direct staff to take the necessary steps to implement that alternative.

Alternatives:

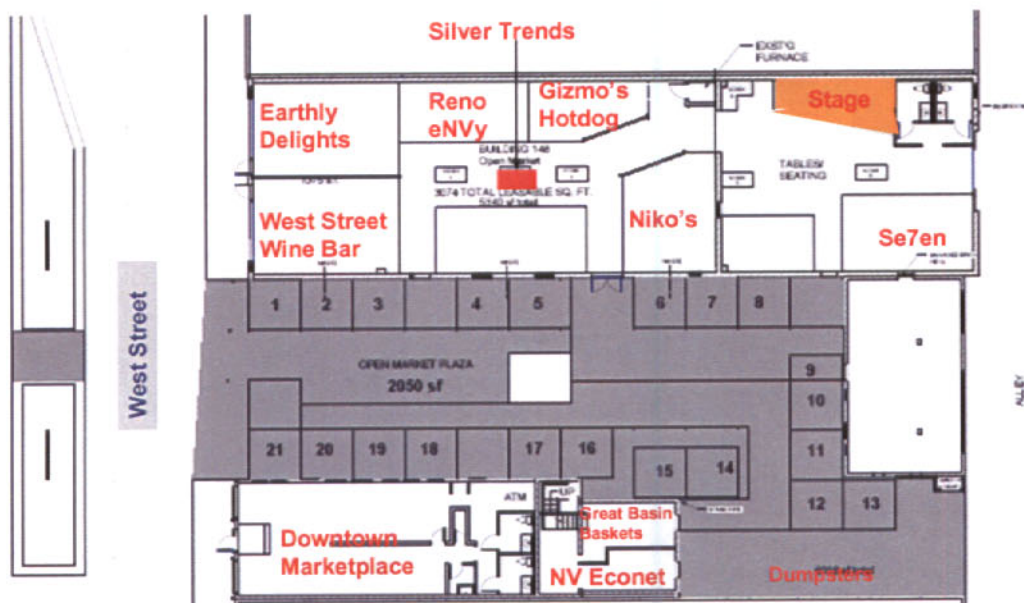
1. Maintain the Original Vision for the Market
2. Change the Vision to Reflect Tenant Desires
3. Develop Not for Profit Incubator Space
4. Sub-lease the property to a Single Entity
5. Close the Market

Proposed Motion:

I move to select alternative ____ and approve the staff recommendation.

Attachment A

West Street Market Tenant Layout



Note: This graphic has not yet been updated to reflect the new lease for an art gallery in the space at the east side of the market adjacent to Se7en.